UNION GAS 1976 ANNUAL REPORT

The Ontario economy is expected to show a moderate recovery of approximately 5 per cent during 1976, and the Union Gas service area should experience a similar increase in economic activity. The improvement in this part of Ontario will result mainly from increased employment and earnings from major construction projects; an expected increase in industrial production; and a continued high level of new residential construction. Large construction projects in Southwestern Ontario are providing a substantial increase in employment and a significant con-

tribution to personal income. As a result, retail sales and service industry activity will also be strengthened.

The number of commercial and industrial building permits issued in the Union Gas territory has declined somewhat from the very high levels reached in 1974, but the trend – in contrast with the trend for other Ontario municipalities – remains considerably above the low level of early 1973. Commercial and industrial construction is therefore expected to be a more important factor in the economic recovery for the Union Gas area than for Ontario as a whole.

Steel, chemicals, automobiles and automotive parts are major industries in Union's service territory, and they are expected to experience a recovery in production in 1976. Over 80 per cent of Canada's steel output comes from Ontario mills and a very substantial amount of the Ontario production is in the Union Gas area. Canadian steel consumption is expected to increase by almost 10 per cent in 1976.

The outlook for automobile production in the territory served by Union Gas has improved considerably as a result of an expected strong recovery in new car sales in the United States this year. About 70 per cent of Canadian passenger car production is exported to the United States and a large proportion of this export-oriented production takes place in the Union Gas area.

For automotive parts the outlook is somewhat less certain, as parts production in Canada has declined for several years now. On the other hand, the requirement for Canadian "value added" content, which includes parts, is close to the minimum required by the terms of the U.S.-Canada automotive agreement. Canadian parts production could, therefore, show an increase more in line with the expected improvement in the overall export market for motor vehicles.

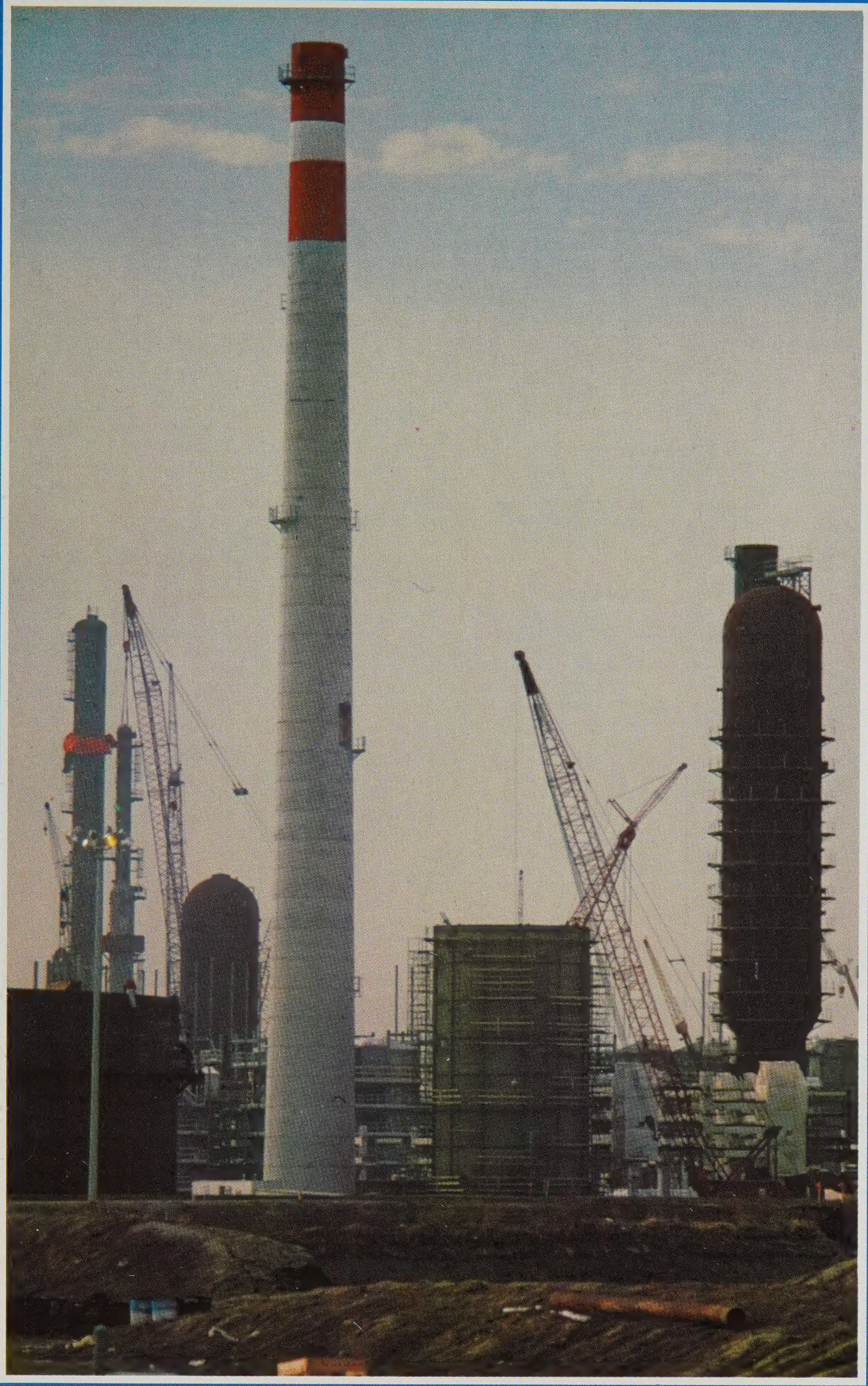
With respect to residential construction, the Union Gas area is expected to continue to out-perform Ontario as a whole in 1976. Housing starts in the Union Gas area should increase by almost 10 per cent, from 22,000 in 1975 to around 24,000 in the current year. In comparison, the 1976 Ontario Budget forecast that, for the entire province, housing starts would increase by only 2.5% in 1976. Other forecasts of the 1976 increase in Ontario starts are somewhat higher, in the 5% – 9% range. A continued up-trend in single, double, semi-detached and row dwelling construction is expected to provide momentum for the increase in activity in the Union Gas area.

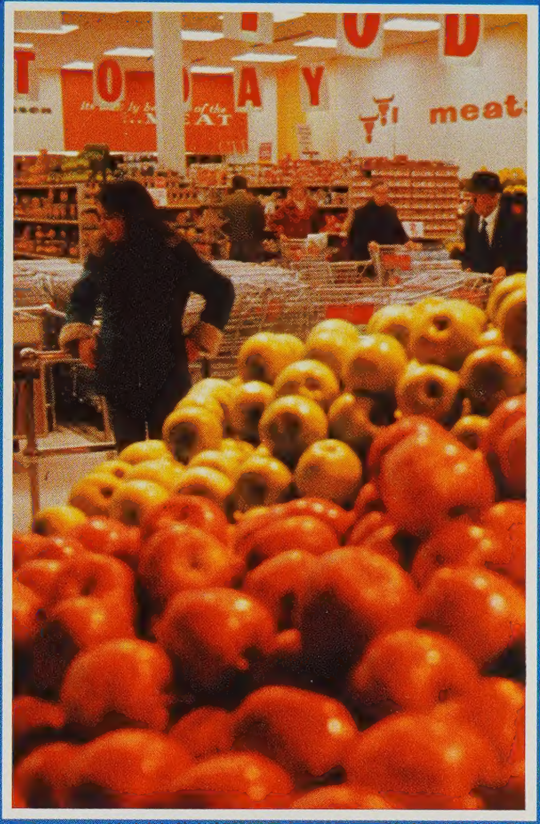
The demand for housing, as measured by vacancy rates, is particularly strong in Brantford, Guelph and Sarnia, while Kitchener and London also show a tight supply-demand situation. Windsor is an exception with a vacancy rate which has increased above its normal level.

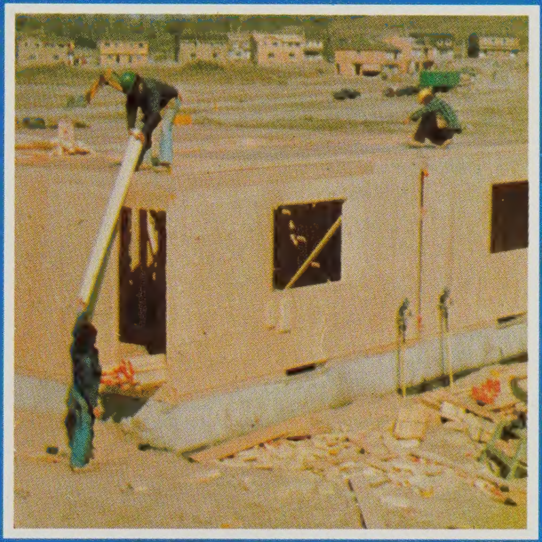
The 1976 increase in construction activity and industrial employment in the Union Gas territory, especially after mid-year, is expected to produce an increase of 12 to 13 per cent in total industrial payrolls. This estimate is based on an expected rise in employment in the 2 to 3 per cent range and an increase in average wages of about 10 per cent this year. After allowing for a forecast increase in consumer prices in the 8 to 9 per cent range, it appears that the disposable income of the average industrial worker could increase by 1 to 2 per cent in 1976. Retail sales activity in the Union Gas area is, therefore, expected to strengthen in the second half of 1976 as a result of increased employment and a trend to more moderate rates of inflation.

If you would like a more complete forecast of what can be expected to happen to the economy of the Union Gas service territory in 1976, we will be pleased to send you a free booklet entitled "Economic Outlook: 1976". Address your request to:

Economic Outlook
Union Gas Limited
50 Keil Drive North
Chatham, Ontario
N7M 5M1





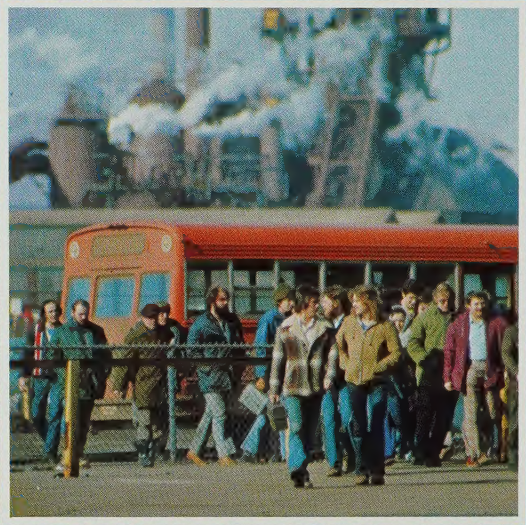


Retail sales activity in the Union Gas area is expected to strengthen in the second half of 1976.

Housing starts in the territory served by Union Gas should increase by almost 10 per cent this year.

Large construction projects are providing a substantial increase in employment and a significant contribution to personal income.

Steel, a major industry in Union's service territory, is expected to experience a recovery in production in 1976.



The disposable income of the average industrial worker could increase by up to 2 per cent in 1976.

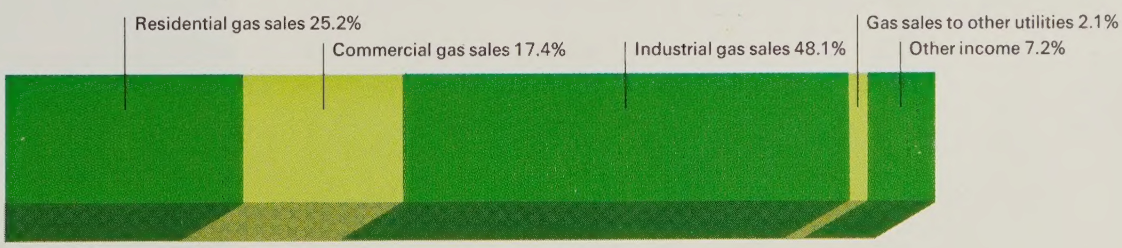
The outlook for auto production in the Union Gas area this year has improved considerably.

Union Gas Limited annual report for the year ended March 31, 1976

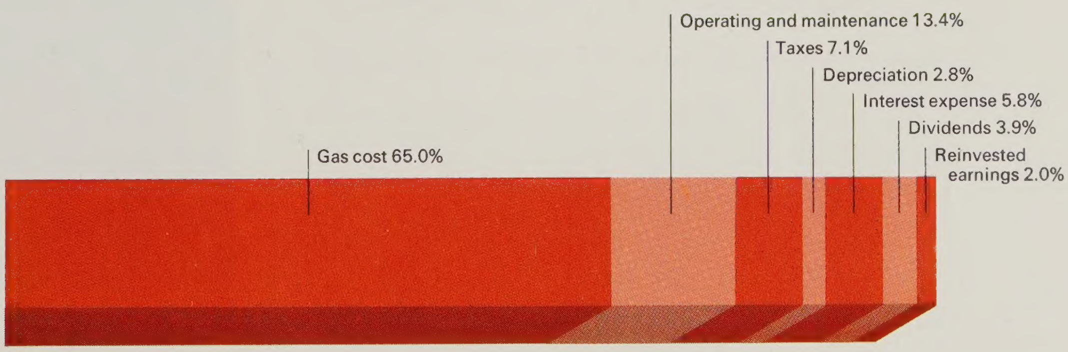
Comparative highlights

Fiscal years ended March 31	**1976**	1975
Gas sales and other income	**$327,618,000**	$240,800,000
Net income for the year	**$ 19,391,000**	$ 14,210,000
Earnings applicable to common shares	**$ 16,211,000**	$ 13,212,000
Basic earnings per common share	**$ 1.07**	$ .87
Dividends declared on common shares:		
Total	**$ 9,672,000**	$ 9,672,000
Per share	**64.0¢**	64.0¢
Natural gas sales MCF*	**233,594,000**	233,118,000
Total customers at year end	**405,000**	390,000
Average gas use per customer MCF*		
Residential	**131.1**	134.7
Commercial	**1,014.2**	1,013.7
Maximum day send-out MCF*	**2,231,000**	1,879,000
Construction expenditures	**$ 45,425,000**	$ 43,805,000
Gross properties at year end	**$449,063,000**	$408,327,000

*MCF means thousand cubic feet



Revenue



Costs

Letter to the shareholders

Operations for the 1976 fiscal year have produced encouraging results. Earnings per common share of $1.07 are 23% higher than the 87.4¢ reported for the previous year. This improvement is particularly gratifying in view of the large increase in preference share dividend requirements, from $998,000 in the 1975 fiscal year to $3,180,000 in the current year. This results from the March 31, 1975 issue of $25,000,000 convertible redeemable preference shares bearing interest at 8¾%.

The rate of growth in revenue reflects the rapid escalation in the wholesale cost of gas and the resulting higher rates to our customers. Comparison with total revenue of past years is no longer meaningful as an indication of growth. The higher gas cost results primarily from the 63% higher price paid for Western Canadian supplies during the past fiscal year. The price is now set by the Federal Government under the terms of the Petroleum Administration Act, and a further significant increase is anticipated shortly. With the approval of the Ontario Energy Board, previous gas cost increases have been reflected in our customer rates. We will, of course, again be making application to the Energy Board for rate adjustments to recover any further increase.

There is growing realization of the huge capital spending necessary over the next few years to ensure the provision of adequate energy supplies to meet the nation's requirements. Union Gas itself foresees a growth rate of 5% for the Southwestern Ontario communities it serves and significant capital outlays will be necessary to maintain its share of the energy market.

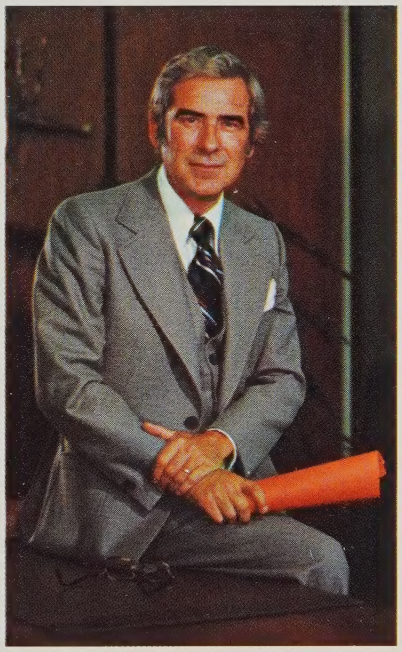
Understandably, there is concern as to how the capital required for Canada's energy supply projects is to be raised, and how the associated carrying costs are to be paid. Our energy needs must be met if Canada is to remain economically sound. If, as a result of prohibitive conditions – including restrictive government policies – the private sector of the energy industry is precluded from undertaking its role in financing the necessary projects, then governments themselves will have to raise the capital. One obvious result would be that the proportion of economic activity under government control would be even greater than at present. It has been reported recently by Statistics Canada that spending on goods and services by all levels of government accounted for 43% of the Gross National Product in 1975. The money to pay for this spending must be

raised from the public at large by means of one form of taxation or another. Moreover, there is not only the question of how the capital is obtained, but also of how efficiently it is employed when government takes over responsibility from the private sector.

Union Gas continues to be part of the Canadian Arctic Gas Study consortium. Your Directors firmly believe that the Mackenzie Valley pipeline proposed by this group will provide the earliest and most economical new source of additional gas supply. We are hopeful that the public hearings now in progress before the National Energy Board will be completed before the end of 1976 and a decision announced early in 1977. This is essential if a serious supply shortfall is to be avoided. We are confident that, if the Federal authorities wisely direct natural gas supplies available from traditional sources, and if approvals are forthcoming for the early completion of the Mackenzie Valley pipeline, no serious disruption in the provision of natural gas service need occur. Recent announcements of the identification of additional reserves in the Arctic and the continuation of significant exploration activity are encouraging.

As a public utility, Union Gas has long operated under governmental regulation and is no stranger to the type of scrutiny currently being imposed on business under the Anti-Inflation legislation. We are in accord with the objectives of the program and are conducting our operations within the stipulated guidelines. Until the rate of inflation can be brought in line with growth in productivity, the value of money will continue to decline and no real gain will be achieved by Canadians. In fact, we shall be in danger of making ourselves uncompetitive in world markets and of destroying our economic viability.

C. Malim Harding,
Chairman of the Board



William G. Stewart,
President and Chief Executive Officer

In April 1976 the Company's offer for the outstanding common shares of Major Holdings & Developments Limited was concluded, with the result that Union Gas now owns 85% of the outstanding shares, and holds an option for a further 14%. Particulars of the transaction are set forth in the Notes to the Financial Statements. However, for the information of our shareholders, we have included in this Report an introduction to the activities of this new subsidiary. For the fiscal year ended March 31, 1976 Major Holdings contributed approximately 3¢ per common share to the earnings of Union Gas, reflecting the 37% interest in that company during the fiscal year. With Union's larger percentage ownership and the excellent outlook for Major, a more significant contribution to earnings in fiscal 1977 is anticipated.

The Company was saddened by the untimely death, on December 26, 1975, of Ron W. Todgham, Chairman of the Board. Mr. Todgham had served as a member of the Board of Directors since 1964 and was appointed Chairman in 1973. He will be long remembered for his wise and capable leadership and his outstanding contribution to the progress of Union Gas.

On March 2, 1976, C. Malim Harding, O.B.E., was appointed to succeed Mr. Todgham as Chairman of the Board. Mr. Harding is Chairman of Harding Carpets Limited and has been a Director of Union Gas since 1962.

Without the skills and co-operative efforts of all of our employees, the accomplishments of the past year would not have been possible. The response of the men and women of Union Gas to the challenge of the times is sincerely appreciated.

On behalf of the Board of Directors.

C.M. Harding

Chairman of the Board

W.G. Stewart.

President and Chief Executive Officer

Chatham, Ontario, May 12, 1976

Major Holdings: our new subsidiary

Union Gas entered into active business relations with Major Holdings & Developments Limited in 1971, when Union provided Major with a $2 million mortgage loan to help initiate a residential housing development, Pioneer Park, in Kitchener. In April, 1974 Union acquired a 28 per cent interest in Major and in April, 1976, Union increased its shareholding to 85 per cent, as the result of an offer to Major's shareholders. (Union also holds an option to purchase almost all of the remaining 321,530 shares.)

Major Holdings was founded in 1957 by a group of Waterloo area businessmen headed by Abram Wiebe, F.R.I. Under the guidance of Mr. Wiebe as President, Major has grown from a local land developer operating in the twin cities area to become one of Southwestern Ontario's leading development firms.

In 1958 the company opened the area's first industrial park and secured three industries for the City of Waterloo in its first year of operation. In the same year Major supplied the first 182 acres for the campus of the fledgling University of Waterloo and, with subsequent sales of company-controlled lands, the campus was extended to 1,000 acres. In 1968 the company purchased subdivision land in the City of Galt (now Cambridge).

Major made its first move out of what is now the Region of Waterloo in 1974, with the purchase of 320 acres of residential development land in Sarnia, followed by further acquisitions in the Cities of Guelph, Windsor and Owen Sound.

The company is well known for its high quality subdivisions, which include the Beechwood Community of Waterloo, Pioneer Park in Kitchener, St. Andrews Estates in Cambridge and (more recently) the Sherwood Village development which is located in Sarnia. Many of the homes in the company's various residential developments have been built by Vintage Homes Limited, a wholly-owned subsidiary of Major since early 1975.

Major has also been involved in extensive commercial and industrial developments. Corporation Square, a large office-commercial complex in Kitchener, and Westmount Place and College Square shopping centres in Waterloo, are prime examples of the company's developments in this field. Major is currently completing a 118,000 sq. ft. multi-tenant industrial mall in Waterloo and has further industrial projects planned.

The future for Major Holdings is promising. Its extensive land bank of approximately 3,000 acres is located in some of the fastest growing urban communities of Ontario. It has a small but highly competent and experienced managerial group and staff. Vintage Homes Limited is sharply increasing the scope of its operations while retaining its reputation for quality construction. The company will continue to expand its development activities in the centres where it now operates and aggressively pursue opportunities in other communities where profitable operations can be anticipated. Major intends to increase its involvement in industrial and commercial development. Industrial and commercial projects undertaken will in some cases be retained for the company's growing portfolio of investment properties.

The following schedule shows Major Holdings' growth performance since 1971.

Year ended December 31	Operating revenue	Net earnings
1971	$3,464,694	$ 60,891
1972	4,341,256	232,233
1973	5,918,743	556,398
1974	6,609,853	1,118,904
1975	12,166,999	1,538,466

Union Gas became associated with Major Holdings in 1971. Union loaned Major some of the money needed to initiate Pioneer Park Subdivision at Kitchener. Phase One of this development was very successful and Phase Two is currently underway.

Review of operations

Financial review

Revenue: For the 1976 fiscal year total revenue rose to $327.6 million, an increase of $86.8 million, or 36% over that for the previous fiscal year.

Gas sales revenue increased by 37% to $304 million. This was essentially due to increased rates charged to our customers to reflect higher gas costs and other increases in the cost of providing service – including return on the capital invested. The total volume of gas sold, 233.6 Bcf*, was only 0.2% greater than for the previous year, although the number of customers increased by 14,780 to 404,521. The moderate increase in sales to residential and general service rate customers was offset by reduced sales in the industrial categories. Sales to industry were well below anticipated levels due to an economic slowdown, while, because of weather and conservation factors, sales in the residential and heating markets were lower than might have been expected.

Other income of $23.6 million was 29% above that for the prior year. The largest single source of such other income is the revenue received for the transportation and storage service provided to other utilities. During fiscal 1976 new contracts for this type of service were entered into with Northern & Central Gas Corporation Limited, Gaz Métropolitain inc. and The Public Utilities Commission of the City of Kingston. They contributed substantially to the increased revenue. Service work for customers and the rental of gas appliances and equipment produced additional revenue as well.

Costs: Total expenses of $290.1 million for fiscal 1976 were up 37% above those for fiscal 1975. The largest increase was in the cost of gas, which rose by $67 million, or 46%, to $213 million. The cost of gas purchased from TransCanada PipeLines was 63% more than for the prior year. As a result of the agreement between the Federal and Alberta Governments as to natural gas pricing, Union's average cost per Mcf of gas purchased from TransCanada rose from 81¢ to $1.23 on November 1, 1975. With the approval of the Ontario Energy Board, gas cost increases experienced during the fiscal year have been reflected in the rates charged to our customers.

Operating and maintenance costs increased by 19% over the previous fiscal year. Higher wages, salaries and associated benefits, in particular pension and insurance costs, were a major factor in the increase. Continuing inflationary pressures were reflected in higher costs of materials and equipment.

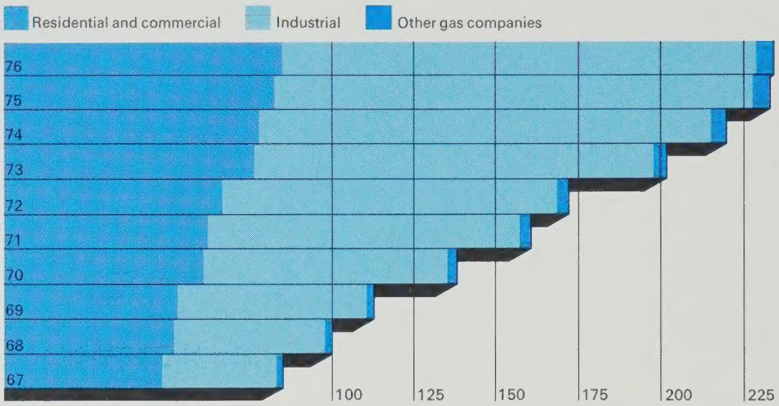
Interest expense of $19.1 million was 17% higher than in the 1975 fiscal year, reflecting the larger amount of long-term debt outstanding at a higher average interest rate, as well as the higher level of short-term borrowings.

Financing: In August 1975 the Company sold $30 million of 11⅜% Sinking Fund Debentures, 1975 Series, due September

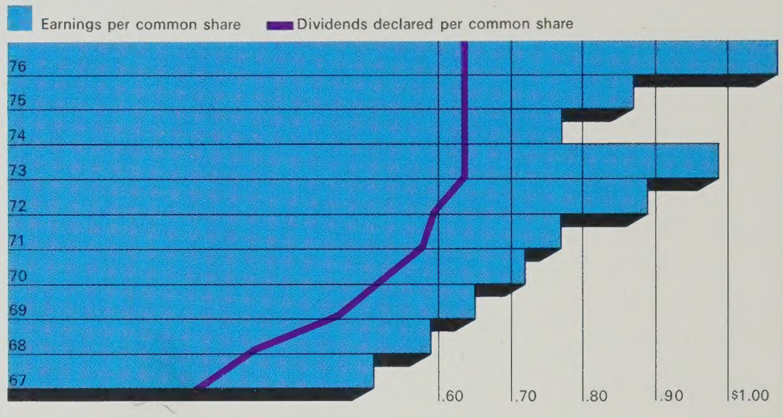
*Bcf means billion cubic feet.

Review of operations

Annual volume of gas sales (billions of cubic feet)

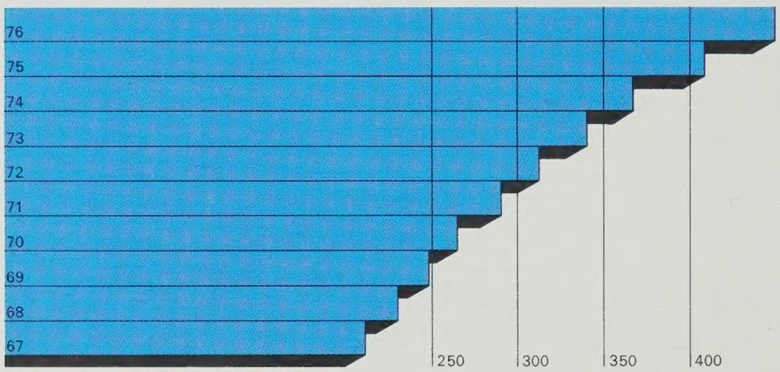


Earnings and dividends

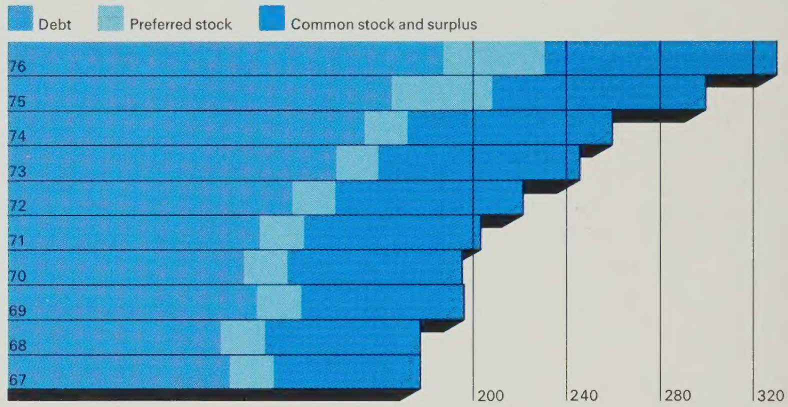


Gross properties

(millions of dollars)

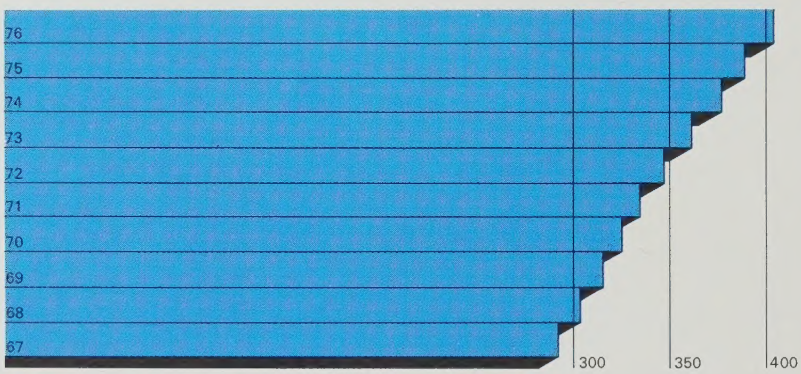


Capital structure (millions of dollars)



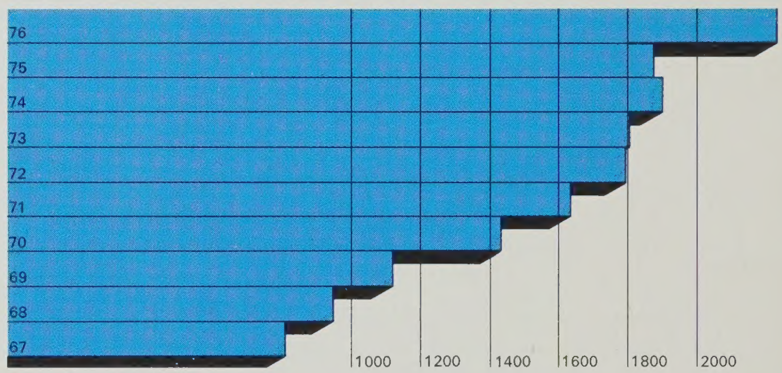
Number of customers served

(in thousands)



Maximum day send out

(millions of cubic feet)



15, 1995. Proceeds of this issue were employed in reducing bank loans and other short-term borrowings.

On February 12, 1976 approval of debenture holders was obtained for amendments to the 1957 and 1963 Trust Indentures and their respective Supplemental Indentures. The amendments resulted in a reduction in the interest coverage tests under these Indentures from 2.5 times consolidated net earnings available for interest to 2.0 times. This is now in conformity with the 1968 Trust Indenture, under which Union currently issues debentures, and provides increased financing flexibility. In consideration of the amendments, the interest rates on the affected debenture issues were increased by one-half of 1%, effective February 12, 1976.

Rates and regulation

In May 1975 the Ontario Energy Board authorized Union to increase its rates to recover higher gas purchase costs. The increase was effective May 1 and was granted on an interim basis, subject to later confirmation by the Board.

On November 3, 1975 the OEB issued its decision on Phase II of the full review of Union's rates, originally applied for in May 1973. The Energy Board essentially confirmed the proposed rates – implemented on an interim basis in January 1975 – with some minor modifications. The Board's decision also confirmed the interim rate increase granted in May 1975 to recover increased gas costs.

An application was filed with the OEB on November 4, 1975 for a new full rate hearing into the Company's rate base, allowable rate of return and overall cost of service. Incorporated in this application was a request for an interim rate increase to pass on to customers increased gas costs implemented by our suppliers in November and December 1975. Approval of this request was received in December 1975. Volumes of gas held in underground storage prior to the increase in wholesale prices enabled the Company to delay implementation of the increase in retail rates for the majority of its customers until January 23, 1976.

The public hearing into the Company's main rate application commenced before the OEB on January 12, 1976. Evidence related to the first phase of the hearing, to determine the annual revenue requirement, has been concluded and a decision is anticipated in June. Following the Energy Board's determination, a second phase of the hearing will be conducted to establish rates in line with the approved revenue requirement.

System expansion

Capital expenditures during fiscal 1976 – for additions to and replacement of plant, properties and equipment – totalled $45.4 million. Of this total, approximately $11.4 million was related to the installation of distribution mains, service lines, meters and regulators to serve 14,780 new customers, and some $7 million was used to replace distribution facilities serving existing customers. The design and construction of new facilities is under constant review in order to keep the increase in capital cost per new customer to a minimum. As well, all extensions of service mains are subjected to stringent economic tests to ensure that our capital expenditures for new customers provide a self-supporting level of return.

Expenditures on storage and transmission facilities exceeded $19 million. A significant portion of these expenditures resulted from expansion of the Company's transmission system to meet the anticipated increase in peak day demand – not only for our own heating customers, but also for those of the other

Gas sales volume and revenue

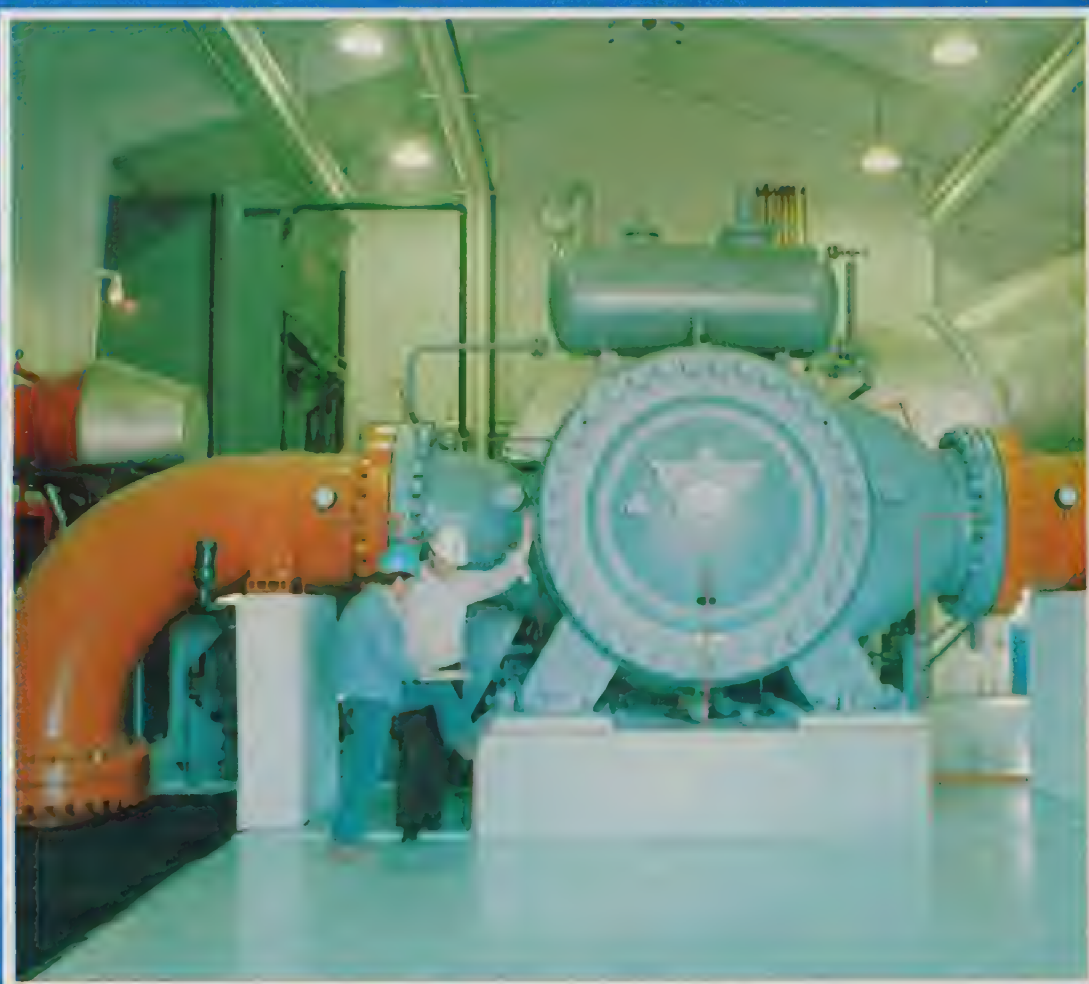
	Volume in billions of cubic feet			Revenue in thousands of dollars		
Class of customer:	Year to March 31 1976	% of total	% over (under) 1975	Year to March 31 1976	% of total	% over (under) 1975
Residential	46.3	19.8	1.1	$ 82,616	27.2	28.0
Commercial	39.1	16.7	3.2	57,152	18.8	32.6
Industrial	142.4	61.0	(1.0)	157,437	51.8	42.9
Other gas distributors for re-sale	5.8	2.5	3.5	6,813	2.2	47.6
Total	233.6	100.0	0.2	$304,018	100.0	36.7

Capital structure

At March 31, 1976 total capitalization was as follows:	in thousands of dollars	% of total
Common shares	$ 31,346	
Accumulated earnings retained for use in the business	67,494	
Total common equity	98,840	30.0
Preference share equity	43,014	13.1
Total equity	141,854	43.1
Long term debt (exclusive of portion to be retired within 12 months and carried on the balance sheet as a current liability)	187,506	56.9
Total capitalization	$329,360	100.0

Twenty-three miles of 42-inch pipeline were built near Strathroy to loop Union's main east-west transmission system.

Station Foreman Pat Moore and Turbine Operator Kent Peters check out new 18,200 horsepower turbine installed at Bright Station (near Woodstock) to help handle the increasing load on Union's transmission system.



utilities for whom we provide storage and transportation service. Installation of 23 miles of 42″ diameter pipeline was completed last fall, continuing the third looping of the main transmission line, and a second turbine compressor unit was commissioned at the Bright Compressor Station.

Gas supply

In fiscal 1976 the Company purchased or produced 260 Bcf of natural gas, an increase of 12 Bcf, or 5% over the previous year. TransCanada PipeLines supplied some 244 Bcf, or 94% of this total.

Panhandle Eastern Pipe Line Company delivered 10 Bcf. This represents a curtailment of some 34% below the annual contract volume of 15.2 Bcf and results from a sharing of supply shortages experienced on the Panhandle system. During the year we were notified that Panhandle will not be in a position to renew this contract, which expires in November, 1976.

During the past year several meetings were held with representatives of the Provincial and Federal Governments regarding possible allocation of natural gas supplies, including representations at the Federal level to ensure a replacement supply for the Panhandle volumes. Federal authorities are currently conducting studies to determine what level of Canadian natural gas requirements can be met by the supplies available. As indicated by the Federal Minister of Energy, it may be necessary to reduce exports in order to alleviate any shortfalls that might occur in Canada. In the past few years, while demand in the large-volume industrial market has increased, Union, in order to ensure availability of service for our other customers, has not expanded sales to this class of customer. We are hopeful that government action will lead to additional supplies being made available in a timely fashion to enable us to increase sales to the industrial market.

Discussions have been held with TransCanada regarding extension of all existing supply agreements through to 1995, such extension to be on the basis that each of its Canadian customers agrees to the extension and that any shortfall in supply beyond the primary term of the current contracts would be shared by TCPL's customers. We have also requested a contract for additional volumes, which might be available as a result of further Export Permit approvals by the Province of Alberta and other gas supply arrangements entered into by TransCanada.

Union continues its policy of offering to purchase all marketable volumes of natural gas discovered and produced within economic distance of its pipeline system. During the year we concluded 32 contracts with local producers, under a new standard form of agreement providing for increased payments. The contracts we have entered into make the implementation of the increased price contingent upon approval by the Ontario Energy Board of inclusion of such higher costs in the Company's cost of service. The new purchase price policy will relate Union's payments for local production to the price paid to TransCanada for Annual Contract Quantity purchases. The Company feels this is a very attractive incentive to local producers, when considered in light of the different economic criteria associated with drilling for and producing natural gas in Ontario. We are hopeful that the improved return to local producers will result in additional supplies being developed in Southwestern Ontario.

The Company has continued to participate in exploration and development in Southwestern Ontario and is engaged in joint venture and farm-out arrangements with three separate groups. Western Canada exploration and development are continuing under a modest $1 million per year budget, as a result of which Union has to date earned a net interest amounting to some 72 Bcf of natural gas in 13 prospect areas. Union has also acquired an interest in three properties in Southcentral Alberta and recent evaluation programs have indicated that the lands contain 380 million tons of coal. Union's share of this tonnage is 126 million tons.

Gas purchased and produced

	Volumes in billions of cubic feet			
Source:	Year to March 31 1976	% of total	Year to March 31 1975	% of total
TransCanada	244.1	94.0	229.2	92.5
Ontario Producers	3.2	1.2	3.8	1.5
Panhandle Eastern	10.0	3.9	13.0	5.3
Total purchased	257.3	99.1	246.0	99.3
Produced from Company Wells	2.4	.9	1.8	.7
Total Gas Supply*	259.7	100.0	247.8	100.0

*Excluding gas transmitted and stored for other companies

The strategic importance of Union's underground storage facilities has again been emphasized during the year. The Rosedale Pool was designated by the OEB for storage use and this Pool plus the Terminus Pool, designated earlier, was put into service. This brought the number of Pools operated by the

Company to nine. On November 8 and 9, 1975, a new record was established when the volume of working gas stored in these Pools on each of those days reached 86.9 Bcf. Union continues to evaluate reef structures in Southwestern Ontario and plans to develop additional storage capability in the near future.

As can be seen by the charts elsewhere in this Report, maximum day sendout on the system was significantly higher than in fiscal 1975. The maximum was some 2.2 Bcf, up 19% over the system peak day for the previous year. Peak day delivery from storage was also up 7% from the previous year.

Marketing/Conservation

Union Gas continues to extend service to customers under its Residential and General Service rate schedules. As well, while emphasizing the need for conservation on the part of all customers, the Company continues to promote the most efficient uses of natural gas and the replacement of existing equipment with newer, more efficient gas equipment.

Marketing policy is directed to ensuring the necessary, orderly growth of the residential, commercial and small industrial markets during the period of level supply and pending the availability of frontier supplies in the early 1980's. Considerable marketing activity is directed to the retention of base load sales by encouraging existing customers to remain with gas-burning equipment when replacing appliances. This is essential in order to avoid erosion of this vital ingredient in maintaining a firm base load and in assuring the most economic use of the Company's facilities. It is imperative that existing markets be preserved and new markets be identified and planned so that when frontier supplies are available they will be readily marketable.

Throughout fiscal 1976 the Company continued an active conservation or energy management program. Energy conservation and supply information was distributed to our markets through newspaper and radio advertising, mailed brochures, bill enclosures and showroom and shopping mall displays. As well, we conducted a poster colouring contest for school children, featuring the conservation theme.

Recognizing that industrial energy conservation can result in significant benefits, Union has conducted a series of Energy Conservation and Technology Conferences in major centres throughout the service area. Four such Conferences have been held, attracting more than 600 senior executives from Southwestern Ontario industry. The Conference programs provided updated information on natural gas supply and pricing, and presented ideas and techniques to enable conservation programs to be implemented. As well as Union's own Vice-Presidents of Marketing and Gas Supply, the Conferences have featured other speakers from Ontario and the United States – primarily energy conservation consultants.

Employees

During the year staff development programs were again emphasized, with the continuing purpose of upgrading the qualifications and skills of employees. One of these programs was designed specifically for those employees who have considerable contact, either directly or indirectly, with our customers and the public. This training will greatly assist such employees to resolve customer problems more promptly and efficiently.

Extensive professional management training has been carried out during the year for 45 of the Company's senior managers, and similar programs are planned for additional managers in 1976. A further program is currently being designed for the Company's supervisory staff and will commence later this year.

Significant numbers of employees continue to take advantage of the Company's Educational Aid Program which provides generous reimbursement for tuition fees and text books for courses successfully completed on employees' own time, normally for post-secondary education.

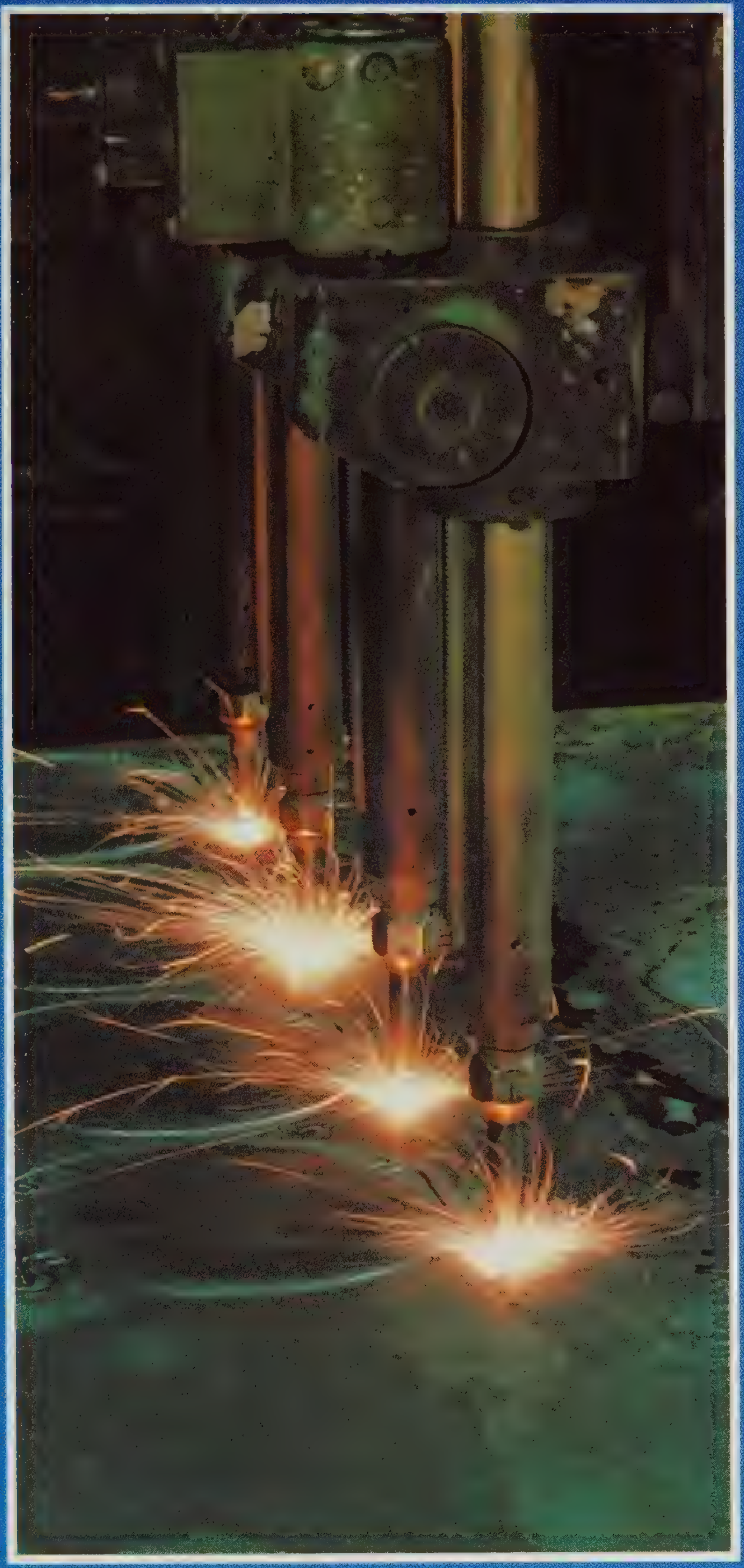
The agreements with the two unions representing some 1100 employees terminated on December 31, 1975. After prolonged negotiations we have now moved into mediation under the auspices of the Ministry of Labour. The Company is hopeful that this procedure will resolve the matter.

Changes in directors and officers

At the June 1975 Annual Meeting of Shareholders, Joseph S. Land was elected to the Board of Directors to fill the vacancy created by the retirement of W. Dent Smith, LL.D. Mr. Land is Vice-Chairman of the Board of IAC Limited.

During the year John B. Jolley, Q.C., joined the Company and was appointed Vice-President, General Counsel and Secretary.

R.G. James, B.Comm., formerly Treasurer, was named Assistant Vice-President, Finance and G.E. Miller, C.A., formerly Comptroller, became Treasurer. M.F. Bermon was appointed an Assistant Treasurer.



Natural gas-fired torches at Woodstock cut through steel plate to produce parts used in the manufacture of heavy duty hoists.

Recycling plant at London recovers aluminum and zinc. Scrap metal is melted in a natural gas furnace and kept molten by gas burners as it flows into ingots.

Statement of Income ($000s)

Union Gas Limited

For the year ended March 31	1976	1975
Revenue		
Gas sales	$304,018	$222,471
Other income	23,600	18,329
	327,618	240,800
Operating expenses and interest		
Cost of gas	213,023	145,981
Operating and maintenance costs	43,918	36,991
Property and capital taxes	5,156	4,332
Depreciation and amortization (note 3)	8,953	8,127
Interest and expense on long-term debt (note 4)	14,713	12,774
Other interest expense	4,350	3,556
	290,113	211,761
Income before income taxes	37,505	29,039
Income taxes (note 5):		
Current	10,558	6,449
Deferred	7,556	8,380
	18,114	14,829
Net income for the year	19,391	14,210
Dividends on preference shares	3,180	998
Earnings applicable to common shares	$ 16,211	$ 13,212
Earnings per common share (note 2)		
Basic	$ 1.07	$ .87
Fully diluted	$ 1.03	$ .87

Statement of Accumulated Earnings Retained for use in the Business ($000's)

For the year ended March 31	1976	1975
Balance at beginning of year:		
As previously reported	$60,277	$56,737
Adjustments of prior years' income taxes (note 5)	776	776
As restated	61,053	57,513
Add net income for the year	19,391	14,210
	80,444	71,723
Deduct:		
Dividends declared (note 9(b))	12,852	10,670
Amortization of expenses on issue of Class B preference shares	98	
	12,950	10,670
Balance at end of year	$67,494	$61,053

(See accompanying notes)

Balance Sheet ($000's)

Union Gas Limited

Assets	**March 31, 1976**	March 31, 1975
Properties, plant and equipment – at cost (note 3)	**$449,063**	$408,327
Less accumulated depreciation	**78,765**	73,351
	370,298	334,976
Current assets		
Accounts receivable (note 7)	**52,897**	45,583
Inventories (note 8) –		
Gas in underground storage	**57,525**	21,505
Merchandise, stores and spare equipment	**8,438**	9,654
Prepayments	**189**	389
	119,049	77,131
Deferred and other assets		
Mortgages receivable (note 7)	**2,017**	2,847
Investment in Major Holdings & Developments Limited	**3,399**	2,955
Gas Arctic – Northwest Project Study Group expenditures	**4,679**	2,792
Unamortized debt discount and expense	**2,296**	1,950
Unamortized preference share issue expense	**853**	951
Deferred gas costs	**5,391**	5,391
Other deferred charges	**1,464**	902
	20,099	17,788
	$509,446	$429,895

Liabilities		
Shareholders' equity		
Capital stock (note 9) –		
Preference shares	**$ 43,014**	$ 43,309
Common shares	**31,346**	31,346
	74,360	74,655
Accumulated earnings retained for use in the business (note 6)	**67,494**	61,053
	141,854	135,708
Long-term debt (note 10)	**187,506**	164,908
Deferred income taxes	**63,890**	56,334
Current liabilities		
Commercial notes and bank loans	**60,741**	19,020
Accounts payable and accrued charges	**36,658**	27,882
Dividends payable	**2,941**	2,418
Income and other taxes payable	**6,418**	3,696
Accrued interest on long-term debt	**3,447**	3,753
Long-term debt due within twelve months (note 10)	**5,991**	16,176
	116,196	72,945
	$509,446	$429,895

(See accompanying notes)

On behalf of the Board: C.M.Harding, Director W.G.Stewart, Director

Statement of Changes in Financial Position ($000's)

For the year ended March 31	1976	1975
Funds provided		
Operations (note 11)	$36,948	$32,251
Long-term debt issued	29,432	27,522
Preference shares issued		24,049
Net repayments on mortgages receivable	830	482
	$67,210	$84,304
Funds applied		
Net expenditure on properties	$45,425	$43,805
Retirement of long-term debt	7,402	16,691
Dividends declared (note 9(b))	12,852	10,670
Purchase of preference shares for cancellation	295	105
Gas Arctic – Northwest Project Study Group expenditures	1,887	889
Investment in Major Holdings & Developments Limited	120	2,800
Deferred charges	562	536
Increase (decrease) in working capital	(1,333)	8,808
	$67,210	$84,304

(See accompanying notes)

Notes to Financial Statements

1. Significant accounting policies

Regulation: The Company is subject to regulation under The Ontario Energy Board Act and The Energy Act, 1971. The accounting practices followed by the Company are approved as appropriate by the Ontario Energy Board in connection with determining revenue rates. Such rates are designed to provide the utility revenue requirement which takes into account cost of service including an appropriate return on investment. Following the first phase of a rate hearing in 1974 to set new revenue rates, the Board approved certain revisions to accounting practices with respect to rates of depreciation and amortization of certain deferred costs to be implemented when the order confirming final revenue rates is issued by the Board. Interim revenue rates related to cost of service (including such revised rates of depreciation and amortization) became effective about January 1, 1975, the hearing continued until March 1976 and the final order confirming such rates was received in April 1976. Details of the revisions are indicated below under the headings of depreciation, deferred gas costs, and other deferred charges.

Properties and depreciation: Properties are carried at cost which includes all direct costs, an allocation of overhead incurred during construction and interest costs applicable to the cost of new properties during the construction period. Interest is capitalized at a rate, based on current cost of capital funds, as approved by the Ontario Energy Board.

Depreciation is provided on the straight-line basis at various rates based on periodic review by consultants of the useful service life of each class of property. The rates provided during the year ended March 31, 1976 resulted in a composite rate of 2.41%.

The Ontario Energy Board has approved a minimum rate of 2.25% (or a resulting composite rate of 2.93%) effective April 1, 1976 to recognize limitations in estimated future gas supplies. For the 1976 fiscal year this would have resulted in an increase of approximately $2,000,000 in the provision for depreciation.

On November 4, 1975 in a new main rate application, the Company requested a minimum rate of 2.75% (or a resulting composite rate of 3.39%) on a straight-line basis to recognize current uncertainties related to future gas supplies, which request was supported by updated depreciation studies prepared by its consultants. Such a minimum rate, if approved, would result in a further future increase of approximately $1,900,000 in the annual provision for depreciation and would be recovered in higher revenue rates.

Oil and gas exploration and development: All exploratory and development costs under the Company's exploration program being carried out in Ontario and Western Canada are accumulated by geographic areas of interest until the results of each project are determined. Costs related to producing areas are transferred to the appropriate property accounts and costs

related to areas determined to be of no interest are written off to income. Exploratory lease rentals not related to the program are charged against income as incurred.

Income taxes: As a result of claiming allowances for income tax purposes for depreciation, certain construction overheads and interest costs, natural gas exploration, and Gas Arctic expenditures in excess of amounts charged in arriving at income for the year, income taxes currently payable are less than the total provision for income taxes shown on the statement of income. The deferred provisions for income taxes aggregating $63,890,000 at March 31, 1976 and $56,334,000 at March 31, 1975 are described in the balance sheet as "Deferred income taxes".

Investment in Major Holdings & Developments Limited: The Company purchased 765,905 common shares of Major Holdings & Developments Limited during the 1975 fiscal year at an aggregate cost of $2,800,000. During the 1976 fiscal year the Company purchased 32,023 common shares for $120,000, and at March 31, 1976 held 797,928 shares at an aggregate cost of $2,920,000, which is 37.1% of the outstanding common shares of Major. Income from this investment is accounted for on the equity basis after amortization of premium on acquisition and amounted to $403,000 and $193,000 in the years ended March 31, 1976 and 1975 respectively. Dividends received during the years ended March 31, 1976 and 1975 amounted to $79,000 and $38,000 respectively. See also note 15.

Gas Arctic – Northwest Project Study Group expenditures: The Company is one of 15 participants in a study group, operating through Canadian Arctic Gas Study Limited, whose purpose is to obtain the necessary regulatory approvals for the construction of a high pressure gas transmission pipeline from the northern regions of Canada and Alaska to markets in Canada and the United States.

The Company's contributions to the Study are being deferred in the accounts until the feasibility of the project has been determined and necessary regulatory approvals obtained. If the project is approved by the National Energy Board and other applicable regulatory bodies, the Study Group agreement calls for the participants to sell the information and knowledge resulting from the Study and all their interest in the project to one or more pipeline companies incorporated for the purpose of implementing the project, for a price at least equal to the costs incurred. The agreement also provides that the participants shall have an opportunity to acquire an equity interest in the pipeline companies. On the other hand, in the event the project does not proceed, costs not recovered would be charged against operations in a manner to be approved by the Ontario Energy Board.

Unamortized debt discount and expense: These costs are amortized over the terms of the related issues of long-term debt.

Unamortized preference share issue expense: Expenses incurred on the issue of Class B convertible preference shares on March 31, 1975 are being amortized over the ten-year period from April 1, 1975 by regular charges against accumulated earnings retained for use in the business.

Deferred gas costs: To enable the Company's major supplier, TransCanada PipeLines Limited, to finance expansion of pipeline facilities necessary for delivery of future volumes of gas, the Company paid additional gas costs of $5,391,000 to TransCanada in 1972 and 1973, which costs were deferred in the Company's accounts. In accordance with an accounting order received from the Ontario Energy Board the Company will amortize these costs over a ten-year period commencing in April 1976.

Other deferred charges: A principal amount included in other deferred charges is the cost of rate hearings, which is to be amortized over a three-year period commencing in April 1976.

Employee pension plan: The unfunded past service obligation which has resulted from revisions of the Company's pension plan in prior years was calculated at $3,549,000 at March 31, 1975, and, based on a current re-evaluation, has been calculated as $4,542,000 at March 31, 1976. Based on actuarial advice, amounts funded and charged against operations were $367,000 in 1975 and $856,000 in 1976. An amount of $808,000 will be funded and charged in each of the fiscal years from 1977 to 1979 and gradually reducing amounts in subsequent years to 1990.

2. Earnings per common share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding during the year. Fully diluted earnings per share assume the conversion of the Class B preference shares as of April 1, 1975.

3. Properties and depreciation

Properties, plant and equipment include distribution systems, transmission lines, gas wells and gathering lines, gas storage facilities, base pressure gas, land and buildings, a summary analysis of the cost of which is as follows:

	March 31, 1976	March 31, 1975
	($000's)	
Production	$ 6,954	$ 7,505
Storage	37,463	33,110
Transmission	133,023	118,099
Distribution	231,449	213,603
General	40,174	36,010
	$449,063	$408,327

Included in the properties accounts are costs of $2,284,000 at March 31, 1976 and $2,225,000 at March 31, 1975 related to projects in progress under the Company's program of exploring for and developing natural gas.

Depreciation and amortization shown on the income statement includes those amounts charged directly as an operating expense in the Company's accounts. In addition, $507,000 was allocated partly to other expense accounts and partly to property accounts in the year ended March 31, 1976 (1975 – $485,000).

4. Interest and expense on long-term debt

The amounts shown for interest on long-term debt, including discount and expense amortized, are the amounts charged directly as an operating expense in the Company's accounts. In addition $505,000 was charged to construction in the year ended March 31, 1976 (1975 – $976,000).

5. Income taxes

Current income taxes payable in the 1976 and 1975 fiscal years were higher by $63,000 and $518,000 respectively because of the federal temporary surtax of 10% imposed from May 1, 1974 to April 30, 1975. The provision for deferred taxes was calculated on the basis of tax rates without the surtax, however, in accordance with approval received from the Ontario Energy Board. The surtax applicable to such deferred taxes would have been $48,000 and $476,000 for the 1976 and 1975 fiscal years respectively.

Accumulated earnings retained for use in the business were increased during 1976 by $776,000 reflecting a reversal of income tax provided in 1972 and 1973 in respect of the 5% Ontario investment tax credit, as a result of a favourable federal reassessment received in November 1975. Amounts shown for income taxes for the 1975 fiscal year reflect a restatement of previously reported figures; current taxes have been decreased and deferred taxes increased by $53,000.

6. Accumulated earnings retained for use in the business

The trust deeds and indentures providing for the issue of the Company's bonds and debentures contain certain restrictions regarding the amount that may be paid as dividends. Accumulated earnings retained for use in the business in the amount of $45,152,000 at March 31, 1976 were free from limitation under the most stringent of these restrictions.

7. Accounts receivable and mortgages receivable

Accounts receivable include merchandise finance plan accounts of which $3,444,000 at March 31, 1976 and $3,973,000 at March 31, 1975 is not due within twelve months. Mortgages receivable include $604,000 at March 31, 1976 and $752,000 at March 31, 1975 in principal instalments due within twelve months.

8. Inventories

Gas in underground storage available for current sale amounted to 46.6 billion cubic feet at March 31, 1976 and 27.0 billion cubic feet at March 31, 1975. This gas is valued at cost on the first-in, first-out basis.

Inventories of merchandise, stores and spare equipment are valued at the lower of cost and replacement cost.

9. Capital stock and dividends

(a) Details of capital stock at March 31, 1976 and 1975 are as follows:

	1976	1975
	($000's)	
Preference shares:		
Class A shares with par value of $50 each –		
Authorized: 360,285 cumulative redeemable shares		
Issued: 145,685 5½% Series A	$ 7,284	$ 7,329
90,000 6% Series B	4,500	4,500
124,600 5% Series C	6,230	6,480
Class B shares with par value of $20 each –		
Authorized: 5,000,000 cumulative shares		
Issued: 1,250,000 8¾% Series 1, convertible redeemable shares	25,000	25,000
	43,014	43,309
Common shares without par value:		
Authorized: 22,000,000 shares		
Issued: 14,122,443 Class A Shares		
989,262 Class B Shares		
15,111,705 Total	31,346	31,346
	$74,360	$74,655

(b) Dividends declared on capital stock are as follows (rate per annum):

	Year ended March 31 1976	1975
	($000's)	
Preference shares –		
Class A:		
Series A – $2.75 per share	$ 402	$ 404
Series B – $3.00 per share	270	270
Series C – $2.50 per share	314	324
Class B:		
Series 1 – $1.75 per share	2,194	
Total preference dividends	3,180	998
Common shares –		
Class A – 64¢ per share	9,271	9,672
Class B – 54.4¢ per share	340	
Tax related to Class B dividends – 9.6¢ per share	61	
Total common dividends	9,672	9,672
Total dividends	$12,852	$10,670

(c) The Class A preference shares are redeemable as follows:

Series A – at $50.50 per share at any time,
Series B – at $55.00 per share at any time,
Series C – at $51.50 per share up to March 30, 1977, then reducing to $51.00 up to March 30, 1981 and $50.50 per share thereafter.

Under the conditions attaching to the Series A and Series C preference shares, the Company is committed to purchase shares for cancellation if their market prices fall to par or below as follows:

Series A – in amounts up to $170,000 annually,
Series C – in amounts up to $140,000 annually.

As required by the Articles of the Company, a special allocation of retained earnings is shown on the books of the Company to reflect this commitment. During the fiscal year ended March 31, 1976, in compliance with the foregoing conditions, 890 Series A shares with an aggregate par value of $44,500 were purchased and cancelled and 5,000 Series C shares with an aggregate par value of $250,000 were purchased and cancelled.

(d) The Class B preference shares, Series 1, are not redeemable prior to March 31, 1980. On and after March 31, 1980, the shares will be redeemable at the option of the Company at a

redemption price of $21.40 per share if redeemed on or before March 31, 1981 and reducing annually in gradual amounts to $20 per share if redeemed after March 31, 1985. In addition, these preference shares are convertible into common shares of the Company on or prior to March 31, 1985 at a rate which is currently 2.2 common shares for each preference share.

(e) On June 25, 1975, the Articles of the Company were amended to alter the authorized and issued capital of the Company by reclassifying the 22,000,000 common shares without par value into a combined total of 22,000,000 Class A Common Shares and Class B Common Shares, all without par value, and creating 100 common shares with a par value of $1 each, none of which are outstanding or proposed to be issued. The Class A and B Common Shares are voting shares, interconvertible on a share for share basis and rank equally in all respects. The only distinction between the two classes of shares is that the Directors may elect to pay dividends on Class B Common Shares out of tax-paid undistributed surplus on hand or 1971 capital surplus on hand as defined in the Income Tax Act, in which case the sum of the cash dividend on a Class B Common Share plus the 15% tax paid per share to create tax-paid undistributed surplus is equal to the cash dividend paid on a Class A Common Share. During the year ended March 31, 1976, a net total of 989,262 shares were converted from Class A to Class B Common Shares.

(f) 218,250 common shares have been reserved under stock option plans for senior employees. During the 1976 fiscal year, options were granted on 24,000 shares at $6.75, and options were cancelled in respect of 2,700 shares at $7.31, 3,200 shares at $13.05, and 25,000 shares at $13.90. Amounts under option at March 31, 1976 are as follows:

Number of shares	Option price	Market price at date of option	Date of expiry of option
80,150	$13.05	$14½	April 6, 1978
87,200	7.31	8⅛	October 1, 1980
4,500	13.06	13¾	December 1,1981
24,000	6.75	7½	May 16, 1981

If the foregoing outstanding options were exercised, there would be no dilution of earnings per share.

10. Long-term debt

Details of this debt as at March 31, 1976 and 1975 are as follows:

	Total outstanding	Current liability	Long-term portion 1976	Long-term portion 1975
	($000's)			
First Mortgage and Collateral Trust Sinking Fund Bonds:				
5% Series "B", due December 1, 1977	$2,232	$ 469	$1,763	$ 2,667
5¼% Series "C", due January 15, 1978	4,920	920	4,000	5,200
6% Series "D", due October 1, 1977	2,357		2,357	2,844
	9,509	1,389	8,120	10,711
Debentures (all sinking fund except serial 1968 Series):				
6% 1958 Series, due December 1, 1977	3,799	249	3,550	4,000
6¼% 1961 Series, due July 15, 1981	7,847	597	7,250	7,850
6¼% 1963 Series, due August 15, 1983	9,544	544	9,000	9,550
6⅜% 1965 Series, due September 1, 1985	11,476	526	10,950	11,475
7½% 1967 Series, due January 5, 1987	12,075	525	11,550	12,075
7¾% serial 1968 Series, due August 1, 1976	650	650		650
7¾% 1968 Series, due August 1, 1988	17,000		17,000	17,000
9⅛% 1970 Series, due April 1, 1990	275	11	264	275
8% 1971 Series, due November 15, 1991	20,000		20,000	20,000
8⅜% 1972 Series, due November 15, 1992	15,000		15,000	15,000
8% 1972 U.S. Series, due November 15, 1992 (U.S. $10,000,000)	9,822		9,822	9,822
8¼% 1973 Series, due June 1, 1993	20,000		20,000	20,000
11% 1974 Series, due August 15, 1994	25,000		25,000	25,000
11⅜% 1975 Series, due September 15, 1995	30,000		30,000	
Debenture at prime bank interest rate plus 1%, due January 1, 1977	1,500	1,500		1,500
	183,988	4,602	179,386	154,197
Total amounts per balance sheet	$193,497	$5,991	$187,506	$164,908

The principal amounts of bonds and debentures required to be retired through sinking funds or serial redemptions during the next five years ending March 31, are as follows: 1977–$5,991,000; 1978–$15,281,000; 1979–$4,605,000; 1980–$5,455,000; 1981–$6,389,000.

On February 12, 1976, the trust indentures relating to the Company's debenture series for the years 1958 to 1967 inclusive were amended to ease the restrictions on the issue of additional debt in conformity with the most recent trust indenture and, in conjunction therewith, the rate of interest on these debentures was increased by one-half of 1% per annum.

11. Funds provided from operations

	Year ended March 31 1976	1975
	($000's)	
Net income for the year	$19,391	$14,210
Add amounts deducted in arriving at net income which did not involve an outlay of funds –		
Depreciation	9,460	8,612
Deferred income taxes	7,556	8,380
Miscellaneous	541	1,049
	$36,948	$32,251

12. Directors' and senior officers' remuneration

Direct remuneration of directors and senior officers totalled $522,000 during the year ended March 31, 1976.

13. Capital expenditures and commitments

Capital expenditures of approximately $51,000,000 are planned for the fiscal year ended March 31, 1977.

In April 1975 the Company announced that it is prepared to invest up to $68 million in the common shares of Canadian Arctic Gas Pipeline Limited to assure long-term, large volume supplies of gas for Southwestern Ontario in future years. An initial amount of $50 million would be paid in three equal instalments over an 18 to 24-month period commencing on the date when the Canadian Arctic Gas Pipeline common shares are first offered to the Company which may be in 1977. The Company's investment is contingent upon the receipt of necessary government approvals, including recognition of the cost of this investment in the Company's revenue rates, financing conditions being satisfactory to the Company and the Company being able to work out a satisfactory plan for the purchase of arctic gas.

14. Anti-Inflation program

The Company is subject to the Anti-Inflation Act which, effective October 14, 1975, established guidelines for the restraint of prices and profit margins, employee compensation and dividends.

In the area of price and profit restraint, the Act provides that compliance with the program by regulated companies is to be monitored by their normal regulatory Boards. Pursuant to this provision the Company has filed detailed calculations under the Anti-Inflation Regulations with the Ontario Energy Board in the course of its current application for a full review of its rate base, allowed rate of return and overall cost of service, and for interim rate increases to offset increased costs. It is the Company's opinion, based on these calculations, that its request for increased rates would result in price and profit levels in compliance with the Anti-Inflation program.

Until October 13, 1976, without Anti-Inflation Board approval, the Company may not declare or pay dividends to its common shareholders in excess of the current quarterly dividend of 16¢ for Class A shares and 13.6¢ for Class B shares in effect at October 13, 1975.

15. Subsequent events

On March 5, 1976, the Company made an offer to the common shareholders of Major Holdings & Developments Limited to acquire all of their shares on the basis of either 5/8 of a Class A Common Share of the Company for each share or a cash payment of $2.00 and 3/8 of a Class A Common Share of the Company for each share. To April 30, 1976, the offer has been accepted by holders of 492,957 common shares of Major Holdings & Developments Limited and these shares, together with 538,625 shares acquired from the principal shareholder of Major for Union Class B Common Shares, were taken up and paid for in April by the issuance of 621,029 Class A and B Common Shares with a stated value of $4,968,000 and the payment of $190,000 in cash. If these additional shares had been outstanding during the 1976 fiscal year, there would have been no dilution in earnings per share.

The cost of the Company's total investment in Major, which represents 85%, amounts to $8,078,000 and has been allocated to the following net assets at time of acquisition:

	($000's)
Properties held for development	$27,925
Investment properties	5,396
Mortgages and other assets	7,360
	40,681
Less mortgages and other liabilities	31,495
	9,186
Less minority interest	1,108
	$ 8,078

The Company has made an option agreement with the former principal shareholder of Major to acquire an additional 300,000 common shares (14%) in the future at a cost determined by formula to be satisfied by issue of Class A Common Shares.

Auditors' report

To the Shareholders of Union Gas Limited:

We have examined the balance sheet of Union Gas Limited as at March 31, 1976 and the statements of income, accumulated earnings retained for use in the business and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at March 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants
Toronto, Canada, May 3, 1976.

Fiscal years ended March 31	**1976**	1975	1974	1973†	1972†	1971
Revenues, expenses and net earnings ($000's)						
Revenues:						
Gas sales	**$ 304,018**	$ 222,471	$ 174,592	$ 151,416	$ 131,577	$ 122,326
Other income	**23,600**	18,329	15,319	13,105	11,845	10,257
Total revenues	**327,618**	240,800	189,911	164,521	143,422	132,583
Expenses:						
Cost of gas	**213,023**	145,981	109,832	86,453	72,166	63,383
Operating and maintenance costs	**49,074**	41,323	34,684	32,340	29,650	29,396
Depreciation and amortization	**8,953**	8,127	7,310	6,596	5,977	5,471
Interest on long-term debt and other debt	**19,063**	16,330	13,179	10,229	9,281	8,468
Total expenses	**290,113**	211,761	165,005	135,618	117,074	106,718
Income before income taxes	**37,505**	29,039	24,906	28,903	26,348	25,865
Income taxes	**18,114**	14,829	12,202	12,486	11,474	13,126
Net income	**19,391**	14,210	12,704	16,417	14,874	12,739
Preference share dividends	**3,180**	998	1,010	1,038	1,046	1,060
Earnings applicable to common shares	**$ 16,211**	$ 13,212	$ 11,694	$ 15,379	$ 13,828	$ 11,679
Basic earnings per common share*	**$ 1.07**	$ .87	$ .77	$ 1.02	$ .92	$ .77
Fully diluted earnings per common share	**$ 1.03**	$ .87	$ .77	$ 1.02	$ .92	$ .77
Dividends declared per common share	**$ .64**	$ .64	$ .64	$ .64	$ .60	$ .58
Statement of changes in financial position ($000's)						
Funds provided:						
Operations	**$ 36,948**	$ 32,251	$ 26,066	$ 30,000	$ 25,590	$ 23,448
Long-term debt issued	**29,432**	27,522	19,616	24,383	19,618	9,847
Proceeds from share issues –						
common	—	—	—	—	38	42
preference	—	24,049	—	—	—	—
Net repayments on mortgages receivable	**830**	482	1,104	1,714	(–)254	1,192
Total	**$ 67,210**	$ 84,304	$ 46,786	$ 56,097	$ 44,992	$ 34,529
Funds applied:						
Net expenditure on properties	**$ 45,425**	$ 43,805	$ 28,124	$ 32,459	$ 25,426	$ 28,215
Dividends declared –						
common shares	**9,672**	9,672	9,672	9,672	8,990	8,761
preference shares	**3,180**	998	1,010	1,038	1,046	1,060
Retirement of long-term debt	**7,402**	16,691	8,292	5,751	5,180	4,660
Purchase of preference shares for cancellation	**295**	105	572	173	293	44
Deferred charges	**562**	536	1,508	3,911	827	72
Gas Arctic – Northwest Project Study Group expenditures	**1,887**	889	728	1,175	—	—
Investment in Major Holdings & Developments Limited	**120**	2,800	—	—	—	—
Increase in working capital	**(–)1,333**	8,808	(–)3,120	1,918	3,230	(–)8,283
Total	**$ 67,210**	$ 84,304	$ 46,786	$ 56,097	$ 44,992	$ 34,529

* On basis of the weighted average number of shares outstanding during the year

† 1973 and 1972 have been restated as a result of Federal income tax reassessments. See Page 18, Note 5.

Fiscal years ended March 31	**1976**	1975	1974	1973	1972	1971
Customers (end of year)						
Residential	**360,943**	347,232	336,552	323,042	309,276	298,322
Commercial	**39,257**	38,284	37,092	35,131	34,309	33,599
Industrial	**4,311**	4,214	3,970	3,510	3,409	3,318
Other utilities	**10**	11	11	8	12	11
Total	**404,521**	389,741	377,625	361,691	347,006	335,250
Gas sales – MMCF*						
Residential	**46,273**	45,786	44,285	44,294	40,389	39,695
Commercial	**39,072**	37,866	34,230	31,881	26,736	23,985
Industrial	**142,396**	143,810	136,897	121,863	102,037	94,171
Other utilities	**5,853**	5,656	5,086	4,658	4,089	3,570
Total	**233,594**	233,118	220,498	202,696	173,251	161,421
Gas sales revenue – ($000's)						
Residential	**$ 82,616**	$ 64,548	$ 53,471	$ 50,561	$ 46,193	$ 45,289
Commercial	**57,152**	43,109	33,317	29,405	25,063	22,756
Industrial	**157,437**	110,198	84,362	68,652	57,883	52,120
Other utilities	**6,813**	4,616	3,442	2,798	2,438	2,161
Total	**$ 304,018**	$ 222,471	$ 174,592	$ 151,416	$ 131,577	$ 122,326
Average gas use per customer – MCF						
Residential	**131.1**	134.7	134.6	140.9	133.5	135.7
Commercial	**1,014.2**	1,013.7	947.3	925.8	790.5	730.0
Gas balance – MMCF*						
Gas produced from Company wells	**2,400**	1,759	780	1,888	1,661	4,523
Gas purchased:						
Ontario sources	**3,205**	3,790	4,812	6,094	8,264	11,485
Other sources	**254,164**	242,244	239,665	200,736	166,295	147,722
Gas received under storage, transmission, etc., contracts, less purchased in place	**169,629**	165,162	165,997	118,672	113,543	101,940
Total all gas	**429,398**	412,955	411,254	327,390	289,763	265,670
Gas into storage	**74,331**	55,320	55,597	47,526	41,723	43,205
Gas out of storage	**51,061**	52,422	37,154	46,123	48,769	37,734
Net gas into or out of (–) storage	**23,270**	2,898	18,443	1,403	(–)7,046	5,471
Total gas sent out	**406,128**	410,057	392,811	325,987	296,809	260,199
Gas sales	**233,594**	233,118	220,498	202,696	173,251	161,421
Gas delivered under storage, transmission, etc., contracts	**166,393**	168,966	163,300	118,931	118,069	97,169
Company use	**1,246**	1,224	1,048	1,232	1,292	1,101
Unbilled, unaccounted for, etc.	**4,895**	6,749	7,965	3,128	4,197	508
	406,128	410,057	392,811	325,987	296,809	260,199
Maximum day send-out – MCF	**2,231,330**	1,878,710	1,902,613	1,809,654	1,795,959	1,637,682
Gas out of storage on maximum day – MCF	**1,247,832**	1,169,532	987,016	900,121	1,022,249	856,531
Degree day deficiency (Celsius)	**3,751**	3,849	3,788	3,863	3,823	3,853

*MMCF means million cubic feet

Fiscal years ended March 31	**1976**	1975	1974	1973	1972	1971
Condensed balance sheet ($000's)						
Assets:						
Properties	**$ 449,063**	$ 408,327	$ 367,174	$ 341,820	$ 312,458	$ 290,127
Less accumulated depreciation	**78,765**	73,351	66,973	61,999	58,065	54,786
	370,298	334,976	300,201	279,821	254,393	235,341
Current assets	**119,049**	77,131	53,075	35,596	34,800	33,998
Deferred and other assets	**20,099**	17,788	13,247	11,936	8,302	6,993
Total	**$ 509,446**	$ 429,895	$ 366,523	$ 327,353	$ 297,495	$ 276,332
Liabilities:						
Shareholders' equity –						
Preference shares	**$ 43,014**	$ 43,309	$ 18,414	$ 18,986	$ 19,159	$ 19,452
Common shares	**31,346**	31,346	31,346	31,346	31,346	31,308
Retained earnings	**67,494**	61,053	57,513	55,491	49,784	44,946
Total	**141,854**	135,708	107,273	105,823	100,289	95,706
Long-term debt	**187,506**	164,908	153,599	141,891	122,820	108,000
Deferred income taxes	**63,890**	56,334	47,954	42,541	36,166	31,978
Current liabilities	**116,196**	72,945	57,697	37,098	38,220	40,648
Total	**$ 509,446**	$ 429,895	$ 366,523	$ 327,353	$ 297,495	$ 276,332
Equity per common share						
No par value common shares outstanding (000's)	**15,112**	15,112	15,112	15,112	15,112	15,108
Equity per share	**$ 6.54**	$ 6.11	$ 5.88	$ 5.75	$ 5.37	$ 5.05
Properties ($000's)						
Gross book value beginning of year	**$ 408,327**	$ 367,174	$ 341,820	$ 312,458	$ 290,127	$ 264,100
Additions:						
Plant acquisitions and additions	**34,721**	36,601	20,821	24,382	19,278	23,169
Plant replacements	**10,049**	6,866	7,313	8,177	6,151	4,923
Gross additions and replacements	**44,770**	43,467	28,134	32,559	25,429	28,092
Retirements:						
Gross value of plant retired	**4,034**	2,314	2,780	3,197	3,098	2,065
Net additions to Properties	**40,736**	41,153	25,354	29,362	22,331	26,027
Gross book value end of year	**$ 449,063**	$ 408,327	$ 367,174	$ 341,820	$ 312,458	$ 290,127
Miles of pipelines						
Gathering and storage lines	**422**	421	461	465	481	499
Transmission lines	**1,814**	1,780	1,755	1,726	1,708	1,688
Distribution lines	**7,225**	7,033	6,851	6,672	6,448	6,212
Total	**9,461**	9,234	9,067	8,863	8,637	8,399

Union Gas Limited

(Incorporated under the Laws of Ontario)

Head Office: 50 Keil Drive North, Chatham, Ontario

Directors

Ralph M.Barford,Toronto
President, Valleydene Corporation Limited

G.H.Blumenauer,Hamilton
Chairman of the Board and President, Otis Elevator Company Limited

John D.Bradley,Chatham
President, Bradley Farms Limited and First Chatham Corporation Limited

Frank Capewell,Chatham
Senior Vice-President, Operations, Union Gas Limited

John B.Cronyn,London
Company Director

C.Malim Harding,O.B.E.,Toronto
Chairman of the Board, Harding Carpets Limited

F.W.P.Jones,London
Financial Consultant

H.B.Keenleyside,C.B.E.,Toronto
Company Director

J.S.Land,Toronto
Vice-Chairman of the Board, IAC Limited

W.G.Stewart,C.A.,Chatham
President and Chief Executive Officer, Union Gas Limited

William H.Watson,Chatham
President, Huron Construction Company Limited

Donald J.Wright,Q.C.,Toronto
Partner,Lang,Michener,Cranston,Farquharson and Wright

Principal officers

C.Malim Harding,O.B.E.
Chairman of the Board

W.G.Stewart,C.A.
President and Chief Executive Officer

F.Capewell
Senior Vice-President, Operations

H.B.Arndt,C.A.
Vice-President, Finance

R.G.Caughey,P.Eng.
Vice-President, Gas Supply

F.M.Edgell,P.Eng.
Vice-President, Marketing and Sales

J.B.Jolley,Q.C.
Vice-President, General Counsel and Secretary

J.Webel
Vice-President, Administrative Services

G.I.Wonnacott
Vice-President, Industrial Relations

R.G.James,B.Comm.
Assistant Vice-President, Finance

G.E.Miller,C.A.
Treasurer

Transfer agents

Class A Preference Shares

5½% Series A
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

6% Series B
Canada Permanent Trust Company
Toronto, Montreal and Calgary

5% Series C
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Calgary

Class B Preference Shares

8¾% Series 1
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

Common Shares (Class A and B)

Canada Permanent Trust Company
Toronto, Montreal, Calgary, Winnipeg and Vancouver

The Chase Manhattan Bank
New York

Registrars

Class A Preference Shares

5½% Series A
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

6% Series B
Canada Permanent Trust Company
Toronto, Montreal and Calgary

5% Series C
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Calgary

Class B Preference Shares

8¾% Series 1
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

Common Shares (Class A and B)

Crown Trust Company
Toronto, Montreal, Winnipeg and Vancouver

Canada Permanent Trust Company
Calgary

Chemical Bank
New York

Dividend disbursing agent

Class A Preference Shares, Series A, B and C; Class B Preference Shares, Series 1 and Common Shares (Class A and B)

Canada Permanent Trust Company
Toronto

Annual meeting of shareholders

Shareholders are cordially invited to attend the Annual Meeting to be held at the Head Office of the Corporation, 50 Keil Drive North, Chatham, Ontario, on Tuesday, June 22, 1976, at 11 o'clock a.m. (Eastern Daylight Time).

Union Gas Pipeline System
Serving Southwestern Ontario
Scale: one inch equals approximately 23 miles
Primary and secondary gas transmission and storage pipelines
Proposed pipelines
Major compressor stations
Principal gas storage fields (see inset)
Portion of transmission facilities of TransCanada PipeLines Limited
The Consumers' Gas Company, Great Lakes Gas Transmission Company Ltd.
and Panhandle Eastern Pipe Line Company
SARNIA
Petrolia
Dawn
LAKE HURON
STATE OF MICHIGAN
PORT HURON
DETROIT
LAKE ST. CLAIR
WINDSOR
LAKE ERIE
OWEN SOUND
Meaford
Thornbury
Collingwood
BARRIE
Hanover
Durham
Walkerton
Mount Forest
Harriston
Palmerston
Listowel
Fergus
Goderich
Clinton
Seaforth
Mitchell
Elmira
WATERLOO
KITCHENER
GUELPH
Georgetown
Acton
TORONTO
Trafalgar
Milton
OAKVILLE
BURLINGTON
HAMILTON
Dundas
Stoney Creek
New Hamburg
CAMBRIDGE
STRATFORD
Exeter
St. Marys
Bright
Paris
WOODSTOCK
BRANTFORD
Caledonia
Dunnville
LONDON
Lobo
Ingersoll
Waterford
Strathroy
Simcoe
Tillsonburg
Delhi
Port Dover
ST. THOMAS
Bothwell
Wallaceburg
Dresden
Thamesville
CHATHAM
Ridgetown
Blenheim
Belle River
Tilbury
Port Alma
Essex
Amherstburg
Harrow
Leamington
Kingsville

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